



# STATE OF INDIANA

**Mitchell E. Daniels, Jr.**  
**Governor**

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**Indiana State Budget Agency**  
212 State House  
Indianapolis, IN 46204-2796  
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**Charles E. Schalliol**  
**Director**

## MEMORANDUM

**DATE:** January 5, 2007

**TO:** John Rowings, Interim Executive Director  
Indiana Legislative Services Agency

**FROM:** David P. Reynolds, Deputy Director  
Indiana State Budget Agency

**SUBJECT:** IC 4-10-21 Business Cycle State Spending Controls

Pursuant to IC 4-10-21, the Indiana State Budget Agency is electronically transmitting to you our calculations of the state spending control limits. Please let me know if you have questions or need additional information.

State Business  
Cycle Spending  
Limit  
IC 4-10-21

FY 2004	11,820,231,451	
FY 2005	12,286,333,484	3.94%
FY 2006	12,745,148,703	3.73%
FY 2007	13,177,592,973	3.39%
FY 2008	13,664,734,523	3.70%
FY 2009	14,185,855,148	3.81%

IC 4-10-21 Business Cycle State Spending Controls

FY 2004 Spending Cap

Step 1: Determine the sum total of the appropriations made from the state general fund and property tax replacement fund (including continuing appropriations) for the state fiscal year beginning July 1, 2002 and ending June 30, 2003.

General Fund Appropriations [1]	7,817,729,990	
Changes in appropriations		
HEA 1196-2002	-148,117,276.0	
21st Century Research & Tech Fund	15,000,000.0	
Property Tax Replacement Fund Appropriations [1]		[1] Source: FY 2003 - FY 2005 Budget As Passed Book, Appendix - I
Tuitions Support	1,523,065,150	
Property Tax Relief	1,157,017,761	
Step One Result	10,364,695,625	

Step 2: Subtract from the STEP One result two hundred forty-three million dollars (\$243,000,000), which is the amount of certain reversions made by state agencies.

Step One Result	10,364,695,625
Less:	243,000,000
Step Two Result	10,121,695,625

Step 3: Multiply the STEP TWO result by one and thirty-five thousandths

Step Two Result	10,121,695,625
Times	1.035
Step Three Result	10,475,954,972

Step 4: The state spending cap imposed under this section is increased in the initial state fiscal year in which the state receives additional revenue for deposit in the state general fund or property tax replacement fund as a result of the enactment of a law that:

- (1) establishes a new tax or fee after June 30, 2002;
- (2) increases the rate of a previously enacted tax or fee after June 30, 2002; or
- (3) reduces or eliminates an exemption, a deduction, or a credit against a previously enacted tax or fee after June 30, 2002.

The amount of the increase is equal to the average revenue that the budget agency estimates will be raised by the legislative action in the initial two (2) full state fiscal years in which the legislative change is in effect.

Revenue increases	Year 1	Year 2	Average
Sales tax increase from 5% to 6%	819,181,800	862,188,845	840,685,322
Sales tax on complimentary hotel rooms	2,000,000	2,000,000	2,000,000
Cigarette tax increase to \$0.555	300,000,000	302,100,000	301,050,000
Increase corporate AGIT rate	59,000,000	62,245,000	60,622,500
Establish utilities receipts tax	74,400,000	76,700,000	75,550,000
Graduated wagering tax	308,500,000	308,500,000	308,500,000
Taxation of lottery winnings	4,500,000	4,500,000	4,500,000
Revenue code update	3,300,000	12,800,000	8,050,000
Mfg. home installers fee	15,000	15,000	15,000
Farm mutual insurance license fee	2,000	0	1,000
Increase sales disclosure filing fee	800,000	800,000	800,000
Department of health fees	478,000	478,000	478,000
Health facility license fees	335,333	335,333	335,333
Healthcare for the uninsured	1,262,000	1,262,000	1,262,000
New construction in floodway	250	250	250
Total	1,573,774,383	1,633,924,428	1,603,849,405
Revenue decreases			
Eliminate gross income tax	168,200,000	173,200,000	170,700,000
Increased R&D credit	47,900,000	51,500,000	49,700,000
Increase renter's deduction	11,093,312	11,384,136	11,238,724
Increased EITC	21,455,656	22,199,595	21,827,625
Streamlined sales tax provisions	5,892,000	6,180,713	6,036,357
Waiver of fees for criminal history checks	23,500	23,500	23,500
Exemption from home health agency license	9,000	9,000	9,000
Board of Accounts audit fees	37,720	37,720	37,720
Total	254,611,189	264,534,663	259,572,926

Step 3 results	10,475,954,971.9
Plus: revenue increases	1,603,849,405.3
Minus: revenue decreases	-259,572,926.0
Adjusted Step 3 results	11,820,231,451.1

2002 First Special Session - Fiscal Impacts  
Updated June 20, 2002

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
School Levy Reduction (55% GF)	483.8	984.0	1,017.4	1,052.0	1,087.8
School Levy Reduction (0% TF)	0.0	0.0	0.0	0.0	0.0
Homestead Credit (20%)	88.3	260.8	355.0	375.3	410.6
Investment Tax Credit	0.0	0.0	0.0	0.0	0.0
\$37,500 Personal Property Credit (savings from current law)	0.0	0.0	0.0	0.0	0.0
New PTRC (20% on Real Property Only. No Utilities)	298.0	622.1	663.4	694.5	746.5
Increase Renters Deduction to \$2,500	0.0	11.1	11.4	11.7	12.0
Earned Income Tax Credit at 6% of Federal Credit [1]	10.4	21.5	22.2	23.0	23.7
Increase R&D Credit to 10% w/out apportionment	23.0	47.9	51.5	0.0	0.0
Eliminate Corp. Gross Except Utilities	81.7	168.2	173.2	178.4	183.7
Venture Capital Tax Credit	0.0	0.0	10.0	10.0	10.0
Ag. Personal Property Credit (Income Tax Credit)	0.0	0.0	0.0	0.0	0.0
Subtotal	903.3	1,947.3	2,130.9	2,166.5	2,290.6
Eliminate Current SPTRC	474.9	994.5	1,041.2	1,090.1	1,141.2
Eliminate current \$37,500 Personal Prop. Credit	0.0	96.0	97.9	98.5	101.8
Increase Individual Income Tax to 3.9%	0.0	0.0	0.0	0.0	0.0
Increase Sales Tax to 6%	316.9	819.2	862.2	909.6	959.6
Increase Corporate Income Tax to 8.5%	29.0	59.0	62.2	65.7	69.3
Business Supplemental Tax	0.0	0.0	0.0	0.0	0.0
Supplemental Utility Tax	36.2	74.4	76.7	79.0	81.4
Suspension of Property Tax Add-back except Ag. Plus \$2,500 Deduct.	0.0	0.0	0.0	0.0	0.0
Delay of Premium Tax Reduction	0.0	0.0	0.0	0.0	0.0
School Trans. PTRC Savings	0.0	0.0	0.0	0.0	0.0
Subtotal	857.0	2,043.1	2,140.2	2,242.8	2,353.4
Withholding gaming winnings	15.0	15.0	15.0	15.0	15.0
Tax Lottery Winnings > \$1,200	4.5	4.5	4.5	4.5	4.5
Cigarette Tax (\$0.555/pack)	271.7	300.0	302.1	304.2	306.2
Gaming Taxes (Pull-tabs)	0.0	0.0	0.0	0.0	0.0
Gaming Taxes (\$3 Admissions w/ dockside. Freeze dist. At FY 02)	54.5	54.5	54.5	54.5	54.5
Gaming Taxes (Wagering IL. Rates)	308.5	308.5	308.5	308.5	308.5
Gaming Taxes (Orange county boat)	0.0	0.0	0.0	0.0	0.0
Wagering Tax/Change in Distribution	102.5	102.5	102.5	102.5	102.5
Tobacco Settlement Fund Transfer	0.0	0.0	0.0	0.0	0.0
Subtotal	767.2	795.4	797.5	799.6	801.6
21st Century Research & Technology Fund	-15.0	-15.0	0.0	0.0	0.0
Subtotal	752.2	780.4	797.5	799.6	801.6
Total New Revenue Less Total New Expenditures	705.8	876.2	806.9	876.0	864.4

IC 4-10-21 Business Cycle State Spending Controls

FY 2005 Spending Cap

Step 1: For the state fiscal year beginning July 1, 2004 and ending June 30, 2005, the state spending cap is equal to the product of the result determined under subsection (a) multiplied by one and thirty-five thousandths (1.035).

Amount determined under subsection (a)	11,820,231,451
Times	1.035
Step 1 result	12,233,939,552

Step 2: The state spending cap imposed under this section is increased in the initial state fiscal year in which the state receives additional revenue for deposit in the state general fund or property tax replacement fund as a result of the enactment of a law that:

- (1) establishes a new tax or fee after June 30, 2002;
- (2) increases the rate of a previously enacted tax or fee after June 30, 2002; or
- (3) reduces or eliminates an exemption, a deduction, or a credit against a previously enacted tax or fee after June 30, 2002.

The amount of the increase is equal to the average revenue that the budget agency estimates will be raised by the legislative action in the initial two (2) full state fiscal years in which the legislative change is in effect.

Revenue increases	Year 1	Year 2	Average
Riverboat license transfer fee	2,000,000	0	1,000,000
Orange county riverboat	1,455,852	1,455,852	1,455,852
ICHIA credits	48,500,000	48,500,000	48,500,000
Revenue code update	10,800,000	3,300,000	7,050,000
Total	62,755,852	53,255,852	58,005,852
Revenue decreases			
Ethanol production credit	5,000,000	0	2,500,000
Coal combustion tax credits	2,000,000	2,000,000	2,000,000
Pharmacy matters	100,000	100,000	100,000
Alcohol and tobacco matters	20,000	20,000	20,000
Repeal sales tax on comp hotel rooms	1,983,840	1,983,840	1,983,840
Total	9,103,840	2,120,000	5,611,920
Step 1 results	12,233,939,552		
Plus: revenue increases	58,005,852		
Minus: revenue decreases	-5,611,920		
Adjusted Step 5 results	12,286,333,484		

IC 4-10-21 Business Cycle State Spending Controls

FY 2006 Spending Cap

State spending growth quotient

Step 1: For each of the six calendar years immediately preceeding the beginning of the first state fiscal year in a biennial budget period, divide the Indiana nonfarm personal income for the calendar year by the Indiana nonfarm personal income for the calendar year immediately preceeding that calendar year.

Calendar Year	Indiana Nonfarm Personal Income				
	24-Nov-04				
1998	24-Oct-06				
1999	154,557.0	0.0402	2004:Q1	182,521.0	
2000	164,745.5	0.0659	2004:Q2	184,738.0	
2001	167,771.5	0.0184	2004:Q3	186,180.0	December 14, 2004 Economic Forecast Committee forecast
2002	171,728.3	0.0236	2004:Q4	188,585.0	
2003	177,638.8	0.0344			
2004	185,506.0	0.0443			

Step 2: Determine the sum of the STEP 1 results

Step 2 results 0.2268

Step 3: Divide the STEP 2 results by six (6)

Step 3 results 0.0378

Step 4: Determine the lesser of the STEP 3 results or 1.06

Step 4 results 1.0378

Step 5

FY 2005 spending limit 12,286,333,484  
Growth quotient 1.0378  
Step 5 results 12,750,671,799

Step 6: The state spending cap imposed under this section is increased in the initial state fiscal year in which the state receives additional revenue for deposit in the state general fund or property tax replacement fund as a result of the enactment of a law that:

- (1) establishes a new tax or fee after June 30, 2002;
- (2) increases the rate of a previously enacted tax or fee after June 30, 2002; or
- (3) reduces or eliminates an exemption, a deduction, or a credit against a previously enacted tax or fee after June 30, 2002.

The amount of the increase is equal to the average revenue that the budget agency estimates will be raised by the legislative action in the initial two (2) full state fiscal years in which the legislative change is in effect.

Revenue increases	Year 1	Year 2	Average
Voter registration	50,000	50,000	50,000
Dept. of Health fees	87,350	87,350	87,350
Court fees	14,392,270	14,392,270	14,392,270
Medicaid quality assessment	22,350,000	1,862,500	12,106,250
ATC fees	2,397,018	2,397,018	2,397,018
Medical equip. license fee	134,000	134,000	134,000
Total	39,410,638	18,923,138	29,166,888
Revenue decreases			
Sales tax exemption on R&D	22,219,000	22,714,968	22,466,984
Increased venture capital tax credit	2,500,000	2,500,000	2,500,000
Partial repeal of RV sales tax exemption	2,323,000	2,323,000	2,323,000
Industrial recover tax credit	4,000,000	0	2,000,000
Per diem for juveniles	5,400,000	5,400,000	5,400,000
Total	36,442,000	32,937,968	34,689,984
Step 5 results	12,750,671,799		
Plus: revenue increases	29,166,888		
Minus: revenue decreases	-34,689,984		
Adjusted Step 5 results	12,745,148,703		

IC 4-10-21 Business Cycle State Spending Controls

FY 2007 Spending Cap

State spending growth quotient

Step 1: For each of the six calendar years immediately preceeding the beginning of the first state fiscal year in a biennial budget period, divide the Indiana nonfarm personal income for the calendar year by the Indiana nonfarm personal income for the calendar year immediately preceeding that calendar year.

Calendar Year	Indiana Nonfarm Personal Income 24-Nov-04				
1999	154,557.0		2004:Q1	182,521.0	
2000	164,745.5	0.0659	2004:Q2	184,738.0	
2001	167,771.5	0.0184	2004:Q3	186,180.0	December 14, 2004 Economic Forecast Committee forecast
2002	171,728.3	0.0236	2004:Q4	188,585.0	
2003	177,638.8	0.0344			
2004	185,506.0	0.0443			

Step 2: Determine the sum of the STEP 1 results

Step 2 results 0.1866

Step 3: Divide the STEP 2 results by six (6)

Step 3 results 0.0311

Step 4: Determine the lesser of the STEP 3 results or 1.06

Step 4 results 1.0311

Step 5

FY 2006 spending limit 12,745,148,703  
Growth quotient 1.0311  
Step 5 results 13,141,476,552

Step 6: The state spending cap imposed under this section is increased in the initial state fiscal year in which the state receives additional revenue for deposit in the state general fund or property tax replacement fund as a result of the enactment of a law that:

- (1) establishes a new tax or fee after June 30, 2002;
- (2) increases the rate of a previously enacted tax or fee after June 30, 2002; or
- (3) reduces or eliminates an exemption, a deduction, or a credit against a previously enacted tax or fee after June 30, 2002.

The amount of the increase is equal to the average revenue that the budget agency estimates will be raised by the legislative action in the initial two (2) full state fiscal years in which the legislative change is in effect.

Revenue increases	Year 1	Year 2	Average
Utility service use tax	40,000,000	40,000,000	40,000,000
collection of delinquent taxes***	5,339,813	5,339,812	5,339,813
5% public safety fee	2,000,000	2,000,000	2,000,000
Child support collection fees**	1,500,000	1,500,000	1,500,000
DNA sample fee increase	688,000	688,000	688,000
Child support collection incentives*	1,200,000	1,200,000	1,200,000
Courts administrative fee increase	100,000	100,000	100,000
registration fees for ethics	55,000	50,000	52,500
Total	50,882,813	50,877,812	50,880,313
Revenue decreases			
Farm mutual insurance - premiums tax	115,000	115,000	115,000
alternative RD credit calculations	1,500,000	1,500,000	1,500,000
Sales tax exemption for home energy	2,221,900	0	1,110,950
Nonresident RV sales exemption	6,768,878	7,307,004	7,037,941
EDGE credits for retention	5,000,000	5,000,000	5,000,000
Total	15,605,778	13,922,004	14,763,891
Step 5 results	13,141,476,552		
Plus: revenue increases	50,880,313		
Minus: revenue decreases	-14,763,891		
Adjusted Step 5 results	13,177,592,973		